

ESSEX COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Essex Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(After September 2005 Election)</b>		
Larry Young	President	2005
Dennis Liljedahl	Vice President	2006
Tim Johnson	Board Member	2006
Christy Johnson	Board Member	2007
Blake Jensen	Board Member	2007

<b>Board of Education</b>		
<b>(After September 2005 Election)</b>		
Dennis Liljedahl	President	2006
Christy Johnson	Vice President	2007
Tim Johnson	Board Member	2006
Blake Jensen	Board Member	2007
Larry Young	Board Member	2008

<b>School Officials</b>		
William Crilly	Superintendent	2006
Gloria McComb	District Secretary/ Treasurer	2006
Sue Seitz	District Attorney	2006

# **NOTLE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

**(a professional corporation)**

**117 West 3rd Street North, Newton, Iowa 50208-3040**

**Telephone (641) 792-1910**

### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education of the  
Essex Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Essex Community School District, Essex, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Essex Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 2, 2006 on our consideration of Essex Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We

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have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Essex Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (which are not presented here in) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 2, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Essex Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,094,378 in fiscal year 2005 to \$2,188,790 in fiscal year 2006, while General Fund expenditures increased from \$1,996,533 in fiscal 2005 to \$2,070,166 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$303,518 in fiscal 2005 to \$422,142 in fiscal 2006, a 39.1% increase from prior year.
- The increase in General Fund revenues was attributable to an increase in state aid revenues in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Overall, the District increased net assets in the governmental activities by \$92,899, and increased in the business-type activities by \$2,877, respectively.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Essex Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Essex Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Essex Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

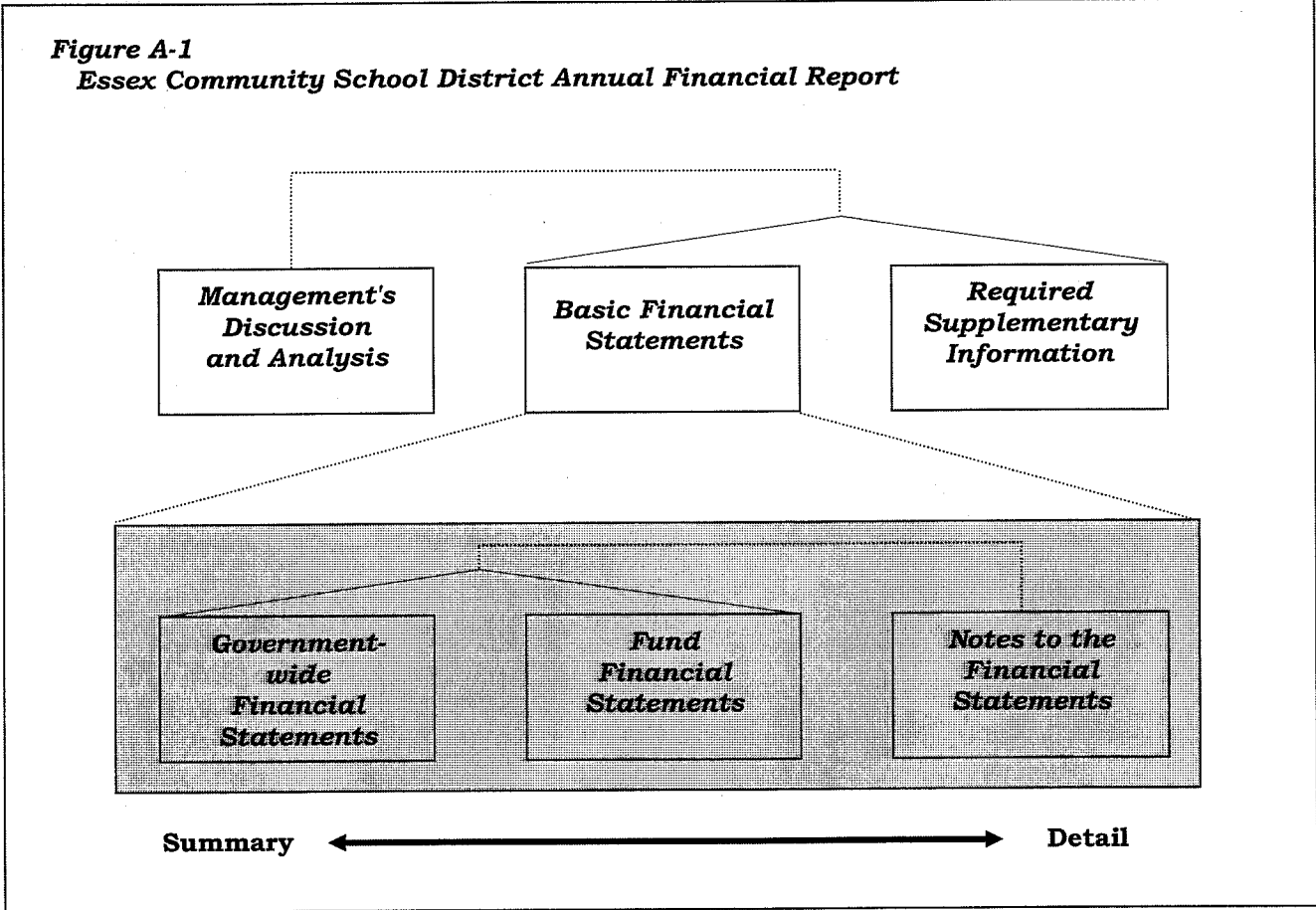


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 2,281,931	2,340,195	\$ 18,257	13,687	\$ 2,300,188	2,353,882	-2.28%
Capital assets	1,475,251	1,504,790	10,287	12,406	1,485,538	1,517,196	-2.09%
Total assets	<u>3,757,182</u>	<u>3,844,985</u>	<u>28,544</u>	<u>26,093</u>	<u>3,785,726</u>	<u>3,871,078</u>	<u>-2.20%</u>
Long-term obligations	452,309	624,041	0	0	452,309	624,041	-27.52%
Other liabilities	1,588,205	1,744,409	10,586	11,012	1,598,791	1,755,421	-8.92%
Total liabilities	<u>2,040,514</u>	<u>2,368,450</u>	<u>10,586</u>	<u>11,012</u>	<u>2,051,100</u>	<u>2,379,462</u>	<u>-13.80%</u>
Net assets:							
Invested in capital assets, net of related debt	1,143,091	1,044,343	10,287	12,406	1,153,378	1,056,749	9.14%
Restricted	64,327	60,619	0	0	64,327	60,619	6.12%
Unrestricted	509,250	371,573	7,671	2,675	516,921	374,248	38.12%
Total net assets	<u>\$ 1,716,668</u>	<u>1,476,535</u>	<u>\$ 17,958</u>	<u>15,081</u>	<u>\$ 1,734,626</u>	<u>1,491,616</u>	<u>16.29%</u>

The District's combined net assets increased by 16.29% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 6.12% compared to prior year. The increase was primarily a result of the increasing in the salary improvement program.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased 38.12% over the prior year. This was due to an increase in the general fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets								
	Governmental Activities		Business-type Activities		Total School District		Total Change	
	2006	2005	2006	2005	2006	2005	2005-06	
Revenues:								
Program revenues:								
Charges for services	\$ 283,004	275,341	\$ 65,141	82,372	348,145	357,713	-2.67%	
Operating grants and contributions and restricted interest	338,513	273,050	48,685	41,897	387,198	314,947	22.94%	
General revenues:								
Property tax	954,601	944,915	0	0	954,601	944,915	1.03%	
Local option sales and service tax	137,430	114,730	0	0	137,430	114,730	0.00%	
Unrestricted state grants	931,377	860,467	0	0	931,377	860,467	8.24%	
Other	53,189	25,481	376	94	53,565	25,575	109.44%	
Total revenues	<u>2,698,114</u>	<u>2,493,984</u>	<u>114,202</u>	<u>124,363</u>	<u>2,812,316</u>	<u>2,618,347</u>	<u>7.41%</u>	
Program expenses:								
Governmental activities:								
Instructional	1,499,637	1,334,069	0	0	1,499,637	1,334,069	12.41%	
Support services	706,686	603,704	0	0	706,686	603,704	17.06%	
Non-instructional programs	0	0	111,325	109,994	111,325	109,994	1.21%	
Other expenses	251,658	210,263	0	0	251,658	210,263	19.69%	
Total expenses	<u>2,457,981</u>	<u>2,148,036</u>	<u>111,325</u>	<u>109,994</u>	<u>2,569,306</u>	<u>2,258,030</u>	<u>13.79%</u>	
Excess(deficiency) of revenues over(under) expenses before other financing uses	240,133	345,948	2,877	14,369	243,010	360,317	-32.56%	
Other financing uses	<u>0</u>	<u>(653)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(653)</u>	<u>-100.00%</u>	
Change in net assets	240,133	345,295	2,877	14,369	243,010	359,664	-32.43%	
Net assets beginning of year	<u>1,476,535</u>	<u>1,131,240</u>	<u>15,081</u>	<u>712</u>	<u>1,491,616</u>	<u>1,131,952</u>	<u>31.77%</u>	
Net assets end of year	<u>\$ 1,716,668</u>	<u>1,476,535</u>	<u>\$ 17,958</u>	<u>15,081</u>	<u>1,734,626</u>	<u>1,491,616</u>	<u>16.29%</u>	

Property tax, local option sales and services tax and unrestricted state grants account for 71.9% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85.9% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$2,698,114 and expenses were \$2,457,981.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,499,637	952,510
Support services	706,686	706,686
Other expenses	251,658	177,268
Totals	<u>\$ 2,457,981</u>	<u>1,836,464</u>

- The cost financed by users of the District's programs was \$283,004.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$338,513.
- The net cost of governmental activities was financed with \$954,601 in property tax, \$137,430 in local option sales and services tax, \$931,377 in unrestricted state grants, \$22,307 in interest income and \$3,174 in other revenues.

#### **Business-Type Activities**

Revenues of the District's business-type activities were \$114,202 and expenses were \$111,325. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Essex Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$599,595, above last year's ending fund balances of \$506,696.

#### **Governmental Fund Highlights**

- The District's General Fund financial position changed from \$303,518 to \$422,142. This was due to the controlled spending by the District. The increase in total expenditures was not enough to offset total revenues.
- The District's Capital Projects Fund decreased \$27,291, to an ending fund balance of \$68,944. This was the result of an increase in expenditure of \$50,647.
- The Special Revenue, Physical Plant and Equipment Levy fund balance increased \$1,398 to a final fund balance of \$14,461.

#### **Proprietary Funds Highlights**

The School Nutrition Fund net assets increased from \$15,081 at June 30, 2005 to \$17,958 at June 30, 2006.

### **BUDGETARY HIGHLIGHTS**

The District's revenues were \$102,147 more than budgeted revenues, a variance of 3.8%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instruction functional area and the other expenditure area due to the timing of disbursements paid at year-end.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2006, the District had invested \$1.48 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$83,067.

The original cost of the District's capital assets was \$3,158,396. Governmental funds account for \$3,101,748 with the remainder of \$56,648 in the School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the buildings category. The District added \$64,139 worth of buildings.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 4,812	4,812	\$ 0	0	\$ 4,812	4,812	0.00%
Buildings	1,372,116	1,318,173	0	0	1,372,116	1,318,173	3.93%
Improvements other than buildings	4,571	35,734	0	0	4,571	35,734	-681.75%
Machinery and equipment	93,752	146,071	10,287	12,406	104,039	158,477	-52.32%
Total	<u>\$ 1,475,251</u>	<u>1,504,790</u>	<u>\$ 10,287</u>	<u>12,406</u>	<u>\$ 1,485,538</u>	<u>1,517,196</u>	<u>-2.13%</u>

### **Long-Term Debt**

At June 30, 2006, the District had \$452,309 in other long-term debt outstanding. This represents a decrease of 27.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$420,000 at June 30, 2006.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$32,309 at June 30, 2006.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
General obligation bonds	\$ 420,000	575,000	-27.0%
Early retirement	32,309	50,041	-35.4%
Totals	\$ 452,309	625,041	-27.6%

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- Certified enrollment increased by 13.3 students in the 2005-06 year. The District expects enrollment to stay steady in the future years.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact William Crilly, Superintendent, Essex Community School District, 111 Forbes Street,, Essex, Iowa, 51638.

BASIC FINANCIAL STATEMENTS

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 530,047	0	530,047
Other	755,499	17,221	772,720
Receivables:			
Property tax:			
Delinquent	17,371	0	17,371
Succeeding year	826,659	0	826,659
Income surtax	96,254	0	96,254
Accounts	22,737	0	22,737
Accrued interest:			
ISCAP(Note 5)	5,491	0	5,491
Interfund	9,500	0	9,500
Due from other governments	18,373	0	18,373
Inventories	0	1,036	1,036
Capital assets, net of accumulated depreciation(Note 6)	1,475,251	10,287	1,485,538
<b>TOTAL ASSETS</b>	<b>3,757,182</b>	<b>28,544</b>	<b>3,785,726</b>
<b>LIABILITIES</b>			
Accounts payable	28,142	0	28,142
Interfund payable	0	9,500	9,500
Salaries and benefits payable	194,478	218	194,696
Accrued interest payable	2,123	0	2,123
ISCAP warrants payable(Note 5)	528,000	0	528,000
ISCAP interest payable(Note 5)	5,148	0	5,148
ISCAP unamortized premium	3,655	0	3,655
Deferred revenue:			
Succeeding year property tax	826,659	0	826,659
Other	0	868	868
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds payable	160,000	0	160,000
Early retirement payable	14,140	0	14,140
Portion due after one year:			
General obligation bonds payable	260,000	0	260,000
Early retirement payable	18,169	0	18,169
<b>TOTAL LIABILITIES</b>	<b>2,040,514</b>	<b>10,586</b>	<b>2,051,100</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	1,143,091	10,287	1,153,378
Restricted for:			
Salary improvement program	328	0	328
Mentoring	1,177	0	1,177
Physical plant and equipment levy	14,461	0	14,461
Other special revenue purposes	48,361	0	48,361
Unrestricted	509,250	7,671	516,921
<b>TOTAL NET ASSETS</b>	<b>\$ 1,716,668</b>	<b>17,958</b>	<b>1,734,626</b>

SEE NOTES TO FINANCIAL STATEMENTS.



ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,117,499	129,403	198,281	(789,815)	0	(789,815)
Special instruction	134,904	3,672	14,348	(116,884)	0	(116,884)
Other instruction	247,234	149,929	51,494	(45,811)	0	(45,811)
	<u>1,499,637</u>	<u>283,004</u>	<u>264,123</u>	<u>(952,510)</u>	<u>0</u>	<u>(952,510)</u>
Support services:						
Student services	69,713	0	0	(69,713)	0	(69,713)
Instructional staff services	51,791	0	0	(51,791)	0	(51,791)
Administration services	303,500	0	0	(303,500)	0	(303,500)
Operation and maintenance of plant services	184,259	0	0	(184,259)	0	(184,259)
Transportation services	97,423	0	0	(97,423)	0	(97,423)
	<u>706,686</u>	<u>0</u>	<u>0</u>	<u>(706,686)</u>	<u>0</u>	<u>(706,686)</u>
Non-instructional programs:						
Food service operations	0	0	0	0	0	0
Other expenditures:						
Facilities acquisitions	116,560	0	0	(116,560)	0	(116,560)
Long-term debt interest	16,304	0	0	(16,304)	0	(16,304)
AEA flowthrough	74,390	0	74,390	0	0	0
Depreciation(unallocated)*	44,404	0	0	(44,404)	0	(44,404)
	<u>251,658</u>	<u>0</u>	<u>74,390</u>	<u>(177,268)</u>	<u>0</u>	<u>(177,268)</u>
Total governmental activities	2,457,981	283,004	338,513	(1,836,464)	0	(1,836,464)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	111,325	65,141	48,685	0	2,501	2,501
Total	<u>\$ 2,569,306</u>	<u>348,145</u>	<u>387,198</u>	<u>(1,836,464)</u>	<u>2,501</u>	<u>(1,833,963)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 824,469	0	824,469
Capital outlay				18,623	0	18,623
Debt service				111,509	0	111,509
Local option sales and services tax				137,430	0	137,430
Unrestricted state grants				931,377	0	931,377
Unrestricted investment earnings				44,974	376	45,350
Other				7,915	0	7,915
Sale of property				300	0	300
Total general revenues				<u>2,076,597</u>	<u>376</u>	<u>2,076,973</u>
Changes in net assets				240,133	2,877	243,010
Net assets beginning of year				1,476,535	15,081	1,491,616
Net assets end of year				<u>\$ 1,716,668</u>	<u>17,958</u>	<u>1,734,626</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 530,047	0	530,047
Other	599,073	156,426	755,499
Receivables:			
Property tax			
Delinquent	13,750	3,621	17,371
Succeeding year	646,511	180,148	826,659
Income surtax	96,254	0	96,254
Accounts	729	22,008	22,737
Accrued interest:			
ISCAP(Note 5)	5,491	0	5,491
Interfund	9,500	0	9,500
Due from other governments	18,373	0	18,373
<b>TOTAL ASSETS</b>	<b>\$ 1,919,728</b>	<b>362,203</b>	<b>2,281,931</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 23,540	4,602	28,142
Salaries and benefits payable	194,478	0	194,478
ISCAP warrants payable(Note 5)	528,000	0	528,000
ISCAP interest payable(Note 5)	5,148	0	5,148
ISCAP unamortized premium	3,655	0	3,655
Deferred revenue:			
Succeeding year property tax	646,511	180,148	826,659
Income surtax	96,254	0	96,254
Total liabilities	1,497,586	184,750	1,682,336
Fund balances:			
Reserved for:			
Mentoring	1,177	0	1,177
Salary improvement program	328	0	328
Debt service	0	21,019	21,019
Unreserved:			
General	420,637	0	420,637
Capital projects	0	68,944	68,944
Management levy	0	24,668	24,668
Physical plant and equipment levy	0	14,461	14,461
Other special revenue purposes	0	48,361	48,361
Total fund balances	422,142	177,453	599,595
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,919,728</b>	<b>362,203</b>	<b>2,281,931</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2006

<b>Total fund balances of governmental funds (page 15)</b>	\$ 599,595
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,475,251
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	96,254
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(2,123)
Long-term liabilities, including general obligation bonds payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(452,309)
<b>Net assets of governmental activities (page 13)</b>	<u><u>\$ 1,716,668</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 776,072	175,121	951,193
Local option sales and service tax	0	137,430	137,430
Tuition	133,075	0	133,075
Other	61,418	192,894	254,312
State sources	1,121,812	171	1,121,983
Federal sources	96,413	0	96,413
Total revenues	2,188,790	505,616	2,694,406
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular instruction	1,092,124	25,581	1,117,705
Special instruction	134,904	0	134,904
Other instruction	104,410	140,743	245,153
	1,331,438	166,324	1,497,762
Support services:			
Student services	69,713	0	69,713
Instructional staff services	51,631	0	51,631
Administration services	296,082	7,418	303,500
Operation and maintenance of plant services	170,927	13,232	184,159
Transportation services	75,985	18,661	94,646
	664,338	39,311	703,649
Other expenditures:			
Facilities acquisitions	0	154,069	154,069
Long-term debt:			
Principal	0	155,000	155,000
Interest and fiscal charges	0	16,937	16,937
AEA flowthrough	74,390	0	74,390
	74,390	326,006	400,396
Total expenditures	2,070,166	531,641	2,601,807
Excess (deficiency) of revenues over (under) expenditures	118,624	(26,025)	92,599
Other financing sources (uses):			
Transfer in	0	60,000	60,000
Transfer out	0	(60,000)	(60,000)
Proceeds from sale of property	0	300	300
Total other financing sources (uses)	0	300	300
Net change in fund balances	118,624	(25,725)	92,899
Fund balance beginning of year	303,518	203,178	506,696
Fund balance end of year	\$ 422,142	177,453	599,595

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds(page 17) \$ 92,899

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Depreciation expense	\$ (80,948)	
Capital outlay expenditures	<u>51,409</u>	(29,539)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 3,408

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.  
 Early Retirement 17,732

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 155,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 633

Changes in net assets of governmental activities(page 14) \$ 240,133

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 17,221
Inventories	1,036
Capital assets, net of accumulated depreciation	<u>10,287</u>
Total assets	<u>28,544</u>
LIABILITIES	
Interfund payable	9,500
Salaries and benefits payable	218
Deferred Revenue:	
Other	<u>868</u>
Total liabilities	<u>10,586</u>
NET ASSETS	
Invested in capital assets, net of related debt	10,287
Unrestricted	<u>7,671</u>
Total net assets	<u>\$ 17,958</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 65,141
TOTAL OPERATING REVENUES	<u>65,141</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	31,750
Benefits	6,308
Services	925
Supplies	69,831
Depreciation	2,119
Other	392
Total non-instructional	<u>111,325</u>
TOTAL OPERATING EXPENSES	<u>111,325</u>
OPERATING LOSS	<u>(46,184)</u>
NON-OPERATING REVENUES:	
State sources	1,468
Federal sources	47,217
Interest income	376
TOTAL NON-OPERATING REVENUES	<u>49,061</u>
Changes in net assets	2,877
Net assets beginning of year	<u>15,081</u>
Net assets end of year	<u>\$ 17,958</u>

SEE NOTES TO FINANCIAL STATEMENTS.

## EXHIBIT I

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 60,570
Cash received from miscellaneous operating activities	4,280
Cash payments to employees for services	(38,193)
Cash payments to suppliers for goods or services	(65,335)
Net cash used in operating activities	<u>(38,678)</u>
Cash flows from non-capital financing activities:	
State grants received	1,468
Federal grants received	41,788
Net cash provided by non-capital financing activities	<u>43,256</u>
Cash flows from investing activities:	
Interest on investments	376
Net cash provided by investing activities	<u>376</u>
Net increase in cash and cash equivalents	4,954
Cash and cash equivalents at beginning of year	<u>12,267</u>
Cash and cash equivalents at end of year	<u>\$ 17,221</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (46,184)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	5,429
Depreciation	2,119
Decrease in inventories	384
Decrease in salaries and benefits payable	(135)
Decrease in deferred revenue	(291)
Net cash used in operating activities	<u>\$ (38,678)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 17,221</u>

## NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$5,429.

SEE NOTES TO FINANCIAL STATEMENTS.



ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	Private Purpose Trust Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 45,000	6,946
TOTAL ASSETS	45,000	6,946
LIABILITIES		
Due to other groups	0	6,946
TOTAL LIABILITIES	0	6,946
NET ASSETS		
Reserved for scholarships	\$ 45,000	0

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2006

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Additions:	
Total additions	<u>\$          0</u>
Deductions:	
Total deductions	<u>             0</u>
Change in net assets	0
Net assets beginning of year	<u>         45,000</u>
Net assets end of year	<u><u>\$         45,000</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Essex Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Essex, Iowa, and the predominate agricultural territory in a portion of Page and Montgomery Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Essex Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Essex Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Page and Montgomery County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District's proprietary fund is the School Nutrition Fund and Resale Fund, which are used to account for the District's food service operations and resale operations.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is

custodial in nature, assets equal liabilities, and does not involve measurement of results of operation.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and

delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20-50 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax

receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements in the non-instructional and other expenditure functional area exceeded the amount budgeted.

### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments at June 30, 2006, are as follows:

Type	Amortized Cost
Diversified Portfolio	<u>\$ 674,815</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.



Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

**(3) Transfers**

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ <u>60,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(4) Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nutrition Fund	\$ <u>9,500</u>

**(5) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	266,928	5,410	266,000	5,083
2005-06A	6/28/05	6/27/06	1,483	0	0	0
2006-07A	6/28/06	6/28/07	261,636	81	262,000	65
Total			\$ 530,047	5,491	528,000	5,148

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in

an amount equal to 25% of the warrant amount. No ISCAP advance activity was noted during the year.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	3.500%	3.230%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

#### (6) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,812	0	0	4,812
Total capital assets not being depreciated	4,812	0	0	4,812
Capital assets being depreciated:				
Buildings	2,302,098	64,139	0	2,366,237
Land improvements	157,499	0	0	157,499
Machinery and equipment	603,519	(12,730)	17,589	573,200
Total capital assets being depreciated	3,063,116	51,409	17,589	3,096,936
Less accumulated depreciation for:				
Buildings	983,925	10,196	0	994,121
Land improvements	121,765	31,163	0	152,928
Machinery and equipment	457,448	39,589	17,589	479,448
Total accumulated depreciation	1,563,138	80,948	17,589	1,626,497
Total capital assets being depreciated, net	1,499,978	(29,539)	0	1,470,439
Governmental activities capital assets, net	\$ 1,504,790	(29,539)	0	1,475,251
Business-type activities:				
Machinery and equipment	\$ 56,648	0	0	56,648
Less accumulated depreciation	44,242	2,119	0	46,361
Business-type activities capital assets, net	\$ 12,406	(2,119)	0	10,287

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular	\$	17,526
Other		2,081
Support services:		
Instructional support		160
Operation and maintenance of plant		100
Transportation		16,677
		<u>36,544</u>
Unallocated depreciation		<u>44,404</u>
Total governmental activities depreciation expense	\$	<u>80,948</u>
Business-type activities:		
Food services	\$	<u>2,119</u>

## (7) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 575,000	0	155,000	420,000	160,000
Early retirement	50,041	280	18,012	32,309	14,140
Total	<u>\$ 625,041</u>	<u>280</u>	<u>173,012</u>	<u>452,309</u>	<u>174,140</u>

### General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of September, 2002			
	Interest Rates	Principal	Interest	Total
2007	2.80	% \$ 160,000	12,740	172,740
2008	3.10	160,000	8,260	168,260
2009	3.30	100,000	3,300	103,300
Total		<u>\$ 420,000</u>	<u>24,300</u>	<u>444,300</u>

### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and must have completed twenty-five years of continuous service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement benefits paid during the year ended June 30, 2006, totaled \$18,012. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

**(8) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$68,875, \$65,422 and \$62,386 respectively, equal to the required contributions for each year.

**(9) Risk Management**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2006 were \$266,717.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$74,390 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(11) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the non-instructional and other expenditures functions exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Fund Types	Fund Type		Original	Final	
	Actual	Actual	Actual			
Revenues:						
Local sources	\$ 1,476,010	65,517	1,541,527	1,416,023	1,416,023	125,504
State sources	1,121,983	1,468	1,123,451	1,137,438	1,137,438	(13,987)
Federal sources	96,413	47,217	143,630	153,000	153,000	(9,370)
Total revenues	2,694,406	114,202	2,808,608	2,706,461	2,706,461	102,147
Expenditures:						
Instruction	1,497,762	0	1,497,762	1,555,352	1,555,352	57,590
Support services	703,649	0	703,649	723,500	723,500	19,851
Non-instructional programs	0	111,325	111,325	109,500	109,500	(1,825)
Other expenditures	400,396	0	400,396	342,662	342,662	(57,734)
Total expenditures	2,601,807	111,325	2,713,132	2,731,014	2,731,014	17,882
Excess(deficiency) of revenues over(under) expenditures	92,599	2,877	95,476	(24,553)	(24,553)	120,029
Other financing sources, net	300	0	300	0	0	300
Excess(deficiency) of revenues and other financing sources over(under) expenditures	92,899	2,877	95,776	(24,553)	(24,553)	120,329
Balance beginning of year	506,696	15,081	521,777	741,868	741,868	(220,091)
Balance end of year	\$ 599,595	17,958	617,553	717,315	717,315	(99,762)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.



OTHER SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2006

	Special Revenue Funds							
	Physical Plant & Manage- ment	Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue	Capital Projects	Debt Service	Total Nonmajor Governmental Funds
ASSETS								
Cash and pooled investments	\$ 23,738	15,950	43,762	5,741	89,191	48,522	18,713	156,426
Receivables:								
Property tax:								
Current year delinquent	930	385	0	0	1,315	0	2,306	3,621
Succeeding year	50,000	17,408	0	0	67,408	0	112,740	180,148
Accounts	0	0	336	0	336	21,672	0	22,008
TOTAL ASSETS	\$ 74,668	33,743	44,098	5,741	158,250	70,194	133,759	362,203
LIABILITIES AND FUND EQUITY								
Liabilities:								
Accounts payable	\$ 0	1,874	1,478	0	3,352	1,250	0	4,602
Deferred revenue:								
Succeeding year property tax	50,000	17,408	0	0	67,408	0	112,740	180,148
	50,000	19,282	1,478	0	70,760	1,250	112,740	184,750
Fund equity:								
Fund balances:								
Reserved:								
Debt service	0	0	0	0	0	0	21,019	21,019
Unreserved:								
Undesignated	24,668	14,461	42,620	5,741	87,490	68,944	0	156,434
Total fund balances	24,668	14,461	42,620	5,741	87,490	68,944	21,019	177,453
TOTAL LIABILITIES AND FUND EQUITY	\$ 74,668	33,743	44,098	5,741	158,250	70,194	133,759	362,203

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
OTHER NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds							Total
	Physical				Total			Other
	Plant and				Special			Nonmajor
	Equipment	Student	Expendable	Revenue	Capital	Debt		Governmental
	Levy	Activity	Trust	Funds	Projects	Service		Funds
Manage- ment								
REVENUES:								
Local sources:								
Local tax	\$ 44,989	18,623	0	0	63,612	0	111,509	175,121
Local option sales and service tax	0	0	0	0	0	137,430	0	137,430
Other	1,612	105	140,463	1,102	143,282	49,348	264	192,894
State sources	44	18	0	0	62	0	109	171
TOTAL REVENUES	46,645	18,746	140,463	1,102	206,956	186,778	111,882	505,616
EXPENDITURES:								
Current:								
Instruction:								
Regular instruction	25,581	0	0	0	25,581	0	0	25,581
Other instruction	0	0	140,243	500	140,743	0	0	140,743
Support services:								
Administration services	7,418	0	0	0	7,418	0	0	7,418
Operation and maintenance of plant services	9,484	3,748	0	0	13,232	0	0	13,232
Transportation services	4,761	13,900	0	0	18,661	0	0	18,661
Other expenditures:								
Facilities acquisitions	0	0	0	0	0	154,069	0	154,069
Long-term debt:								
Principal	0	0	0	0	0	0	155,000	155,000
Interest and fiscal charges	0	0	0	0	0	0	16,937	16,937
TOTAL EXPENDITURES	47,244	17,648	140,243	500	205,635	154,069	171,937	531,641
Excess(deficiency) of revenues over(under) expenditures	(599)	1,098	220	602	1,321	32,709	(60,055)	(26,025)
OTHER FINANCING SOURCES(USES):								
Transfer in	0	0	0	0	0		60,000	60,000
Transfer out	0	0	0	0	0	(60,000)	0	(60,000)
Proceeds from sale of property	0	300	0	0	300	0	0	300
TOTAL OTHER FINANCING SOURCES(USES)	0	300	0	0	300	(60,000)	60,000	300
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	(599)	1,398	220	602	1,621	(27,291)	(55)	(25,725)
FUND BALANCES BEGINNING OF YEAR	25,267	13,063	42,400	5,139	85,869	96,235	21,074	203,178
FUND BALANCES END OF YEAR	\$ 24,668	14,461	42,620	5,741	87,490	68,944	21,019	177,453

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Speech	\$ 1,384	1,875	1,505	1,754
Music	683	1,209	1,549	343
Band fundraiser	1,233	7,250	5,342	3,141
Vocal music	1,441	(3)	620	818
Athletics	6,917	47,381	53,795	503
Skate Fund	0	1,292	1,292	0
Junior high uniforms	277	0	0	277
JH VB tourn.	1,525	1,749	960	2,314
JH BB tourn.	1,581	1,226	(121)	2,928
Softball field fund	826	0	826	0
Trophy case	500	0	0	500
Football fund	1,269	2,982	3,431	820
HS basketball	70	2,394	2,413	51
Athletics-girls	149	0	0	149
Softball girls	250	0	0	250
Elementary can drive	220	706	278	648
Class of 2005	1,067	0	1,067	0
Class of 2006	5,123	21,692	24,541	2,274
Class of 2007	410	18,877	13,672	5,615
Class of 2008	162	39	70	131
Class of 2009	127	89	43	173
Class of 2010	38	49	111	(24)
Class of 2011	0	28	13	15
Fine arts club	29	25	50	4
Pep club	1,425	466	962	929
Spanish club	35	0	0	35
School booster fund	435	0	89	346
E-Stars	413	2,739	2,134	1,018
Safety patrol	185	100	156	129
Annual	5,052	9,813	7,706	7,159
Elementary	2,218	1,428	714	2,932
Media center	1,083	0	0	1,083
Special projects	1,528	3,329	4,315	542
Special projects landscaping	0	2,362	2,455	(93)
National honor society	11	716	550	177
Project class	4,358	7,259	6,933	4,684
Student council	376	3,391	2,772	995
Total	\$ 42,400	140,463	140,243	42,620

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
Additions:					
Interest	\$ 272	226	125	479	1,102
Deductions:					
Scholarships	500	0	0	0	500
EXCESS(DEFICIENCY) OF ADDITIONS OVER(UNDER) DEDUCTIONS	(228)	226	125	479	602
Balance beginning of year	2,005	420	1,922	792	5,139
Balance end of year	\$ 1,777	646	2,047	1,271	5,741

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS  
 NON-EXPENDABLE TRUST ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	Total
Additions:	\$ 0	0	0	0
Deductions	0	0	0	0
Change in net assets	0	0	0	0
Balance beginning of year	20,000	20,000	5,000	45,000
Balance end of year	\$ 20,000	20,000	5,000	45,000

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2006

	Beginning Balance	Increases	Decreases	Ending Balance
<b>CORE SCHOOL BOOSTER</b>				
Assets:				
Cash and other investments	\$ 242	120	120	242
Liabilities:				
Due to other groups	\$ 242	120	120	242
<b>SUMMER RECREATION</b>				
Assets:				
Cash and other investments	\$ 3,225	7,688	6,146	4,767
Liabilities:				
Due to other groups	\$ 3,225	7,688	6,146	4,767
<b>WELLNESS PROGRAM</b>				
Assets:				
Cash and other investments	\$ 363	0	34	329
Liabilities:				
Due to other groups	\$ 363	0	34	329
<b>NURSE FUND</b>				
Assets:				
Cash and other investments	\$ 584	225	349	460
Liabilities:				
Due to other groups	\$ 584	225	349	460
<b>DEFIBRILLATOR FUND</b>				
Assets:				
Cash and other investments	\$ 1,095	0	0	1,095
Liabilities:				
Due to other groups	\$ 1,095	0	0	1,095
<b>TEACHER'S BOOK FUND</b>				
Assets:				
Cash and other investments	\$ 53	0	0	53
Liabilities:				
Due to other groups	\$ 53	0	0	53
<b>TOTAL</b>				
Cash and other investments	\$ 5,562	8,033	6,649	6,946
Liabilities:				
Due to other groups	\$ 5,562	8,033	6,649	6,946

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30				
	2006	2005	2004	2003
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 1,088,623	1,059,879	1,162,114	1,015,911
Tuition	133,075	121,086	153,736	122,781
Other	254,312	176,562	143,036	142,142
Intermediate sources	0	3,174	0	0
State sources	1,121,983	1,038,057	1,060,391	1,093,728
Federal sources	96,413	95,460	108,576	96,187
Total	<u>\$ 2,694,406</u>	<u>2,494,218</u>	<u>2,627,853</u>	<u>2,470,749</u>
<b>Expenditures:</b>				
Instruction:				
Regular instruction	\$ 1,117,705	1,094,300	1,023,146	976,479
Special instruction	134,904	138,480	167,814	209,897
Other instruction	245,153	212,114	184,216	169,837
Support services:				
Student services	69,713	42,331	24,112	57,907
Instructional staff services	51,631	63,508	34,772	34,687
Administration services	303,500	284,193	253,979	293,880
Operation and maintenance of plant services	184,159	155,805	139,977	132,215
Transportation services	94,646	77,486	97,851	62,503
Other expenditures:				
Facilities acquisition	154,069	117,703	38,705	65,537
Long-term debt:				
Principal	155,000	170,127	154,251	158,748
Interest and other charges	16,937	21,394	24,215	55,431
AEA flowthrough	74,390	78,350	73,674	79,160
Total	<u>\$ 2,601,807</u>	<u>2,455,791</u>	<u>2,216,712</u>	<u>2,296,281</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



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Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
Essex Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Essex Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 2, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Essex Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

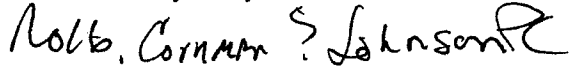
As part of obtaining reasonable assurance about whether Essex Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Essex Community School District and other parties to Essex Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Essex Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 2, 2006

ESSEX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - With our limited staff we have divided the Child Nutrition receipts, and deposits to one of our secretaries, athletics and activities receipts and deposits are handled by another secretary and the Board Secretary. The general funds are the responsibility of the Board Secretary with review by the Superintendent. With our limited staff this is as segregated as possible.

Conclusion - Response accepted.

ESSEX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, exceeded the amount budgeted in the non-instructional functional area and other expenditures area.

Recommendation-The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted a disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979. A \$4,500 check was made out for cash for the senior trip. There were no invoices, receipts, or supporting documents for this transaction.

Recommendations - Disbursement process should follow a approval process which includes having invoices and/or supporting documents before approval.

Response - We will follow this process.

Conclusion - Response accepted

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - No business transactions between the District and District officials were noted.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-J-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-K-06 Financial Conditions - The District had deficit account balances in the Special Revenue, Student Activity Fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficits accounts.

Response - We will monitor this fund and investigate any available options to eliminate the deficits accounts.

Conclusion - Response accepted.